

Fourth Quarter and
FY 2011 Review
May 3, 2011

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Chairman & CEO

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Forward-Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not statements of facts or guarantees of future performance, and are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those discussed in the statements.

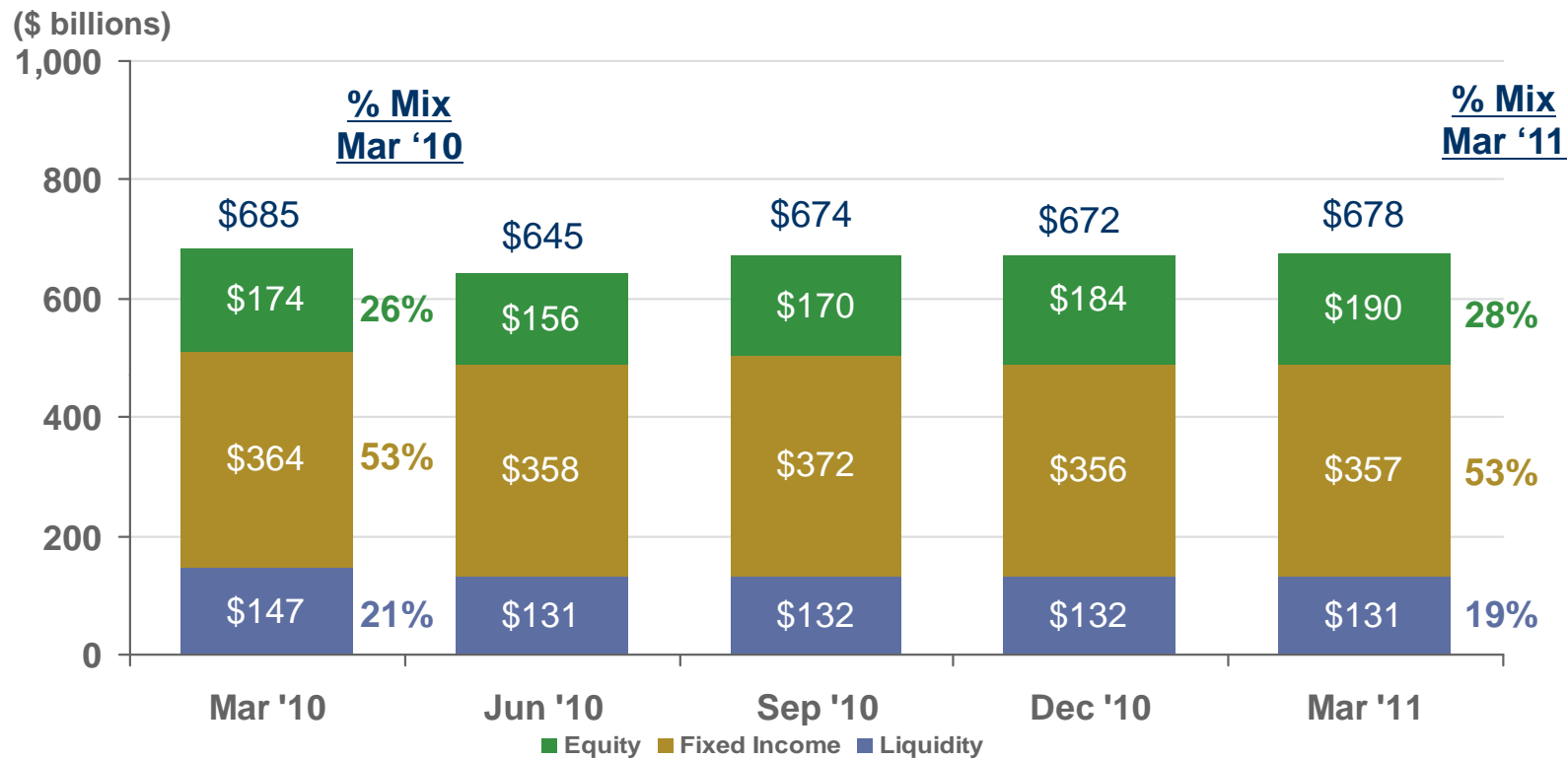
For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2010 and in the Company’s quarterly reports on Form 10-Q.

A Year of Focus and Progress

- Net Income increased 24% over prior year to \$254M or \$1.63 per diluted share
- Aggressively pursued our value creation and streamlining initiatives
 - Solidified our strategic objectives
 - Realigned our Executive Management team
 - Achieved first phase of targeted cost reductions
- 70%+ of marketed composite AUM¹ beating benchmark for 1-, 3-, 5- and 10- year periods
- Raised \$4.1B in new product launches
- Reduced level of long-term AUM net outflows by 43%
- Repurchased and retired 14.6M shares of common stock
- Maintained strong balance sheet and excess cash position

¹ includes liquidity

Assets Under Management by Asset Class

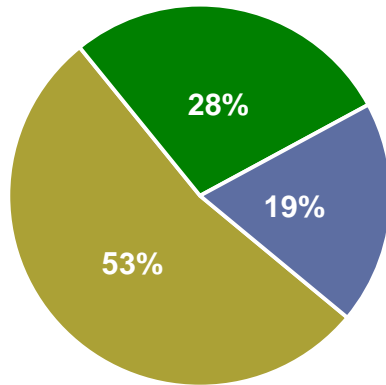


- Equity AUM increased 9% to \$190B from the prior year quarter
- Change in mix of AUM increased advisory fee yield to 36 bps in Mar 11 from 35 bps in Dec 10 and 33 bps in Mar 10

Diversity & Scale

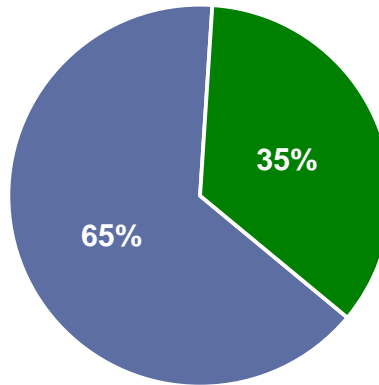
Total AUM \$678B

AUM by Asset Class



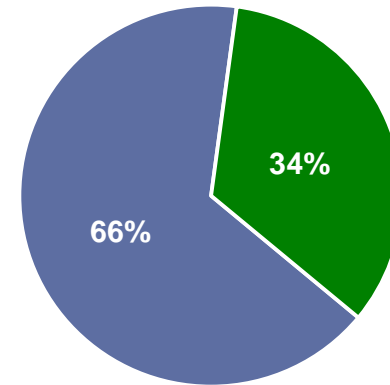
■ Fixed Income ■ Equity ■ Liquidity

AUM by Client Domicile



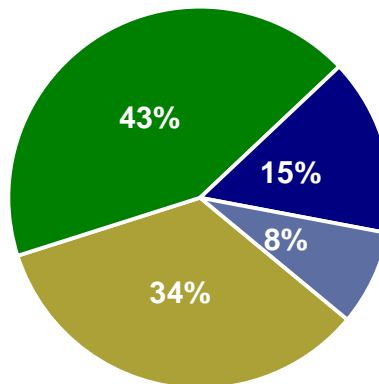
■ US ■ Non-US

AUM by Client



■ Institutional ■ Retail

FY11 Gross Revenues \$2,784M

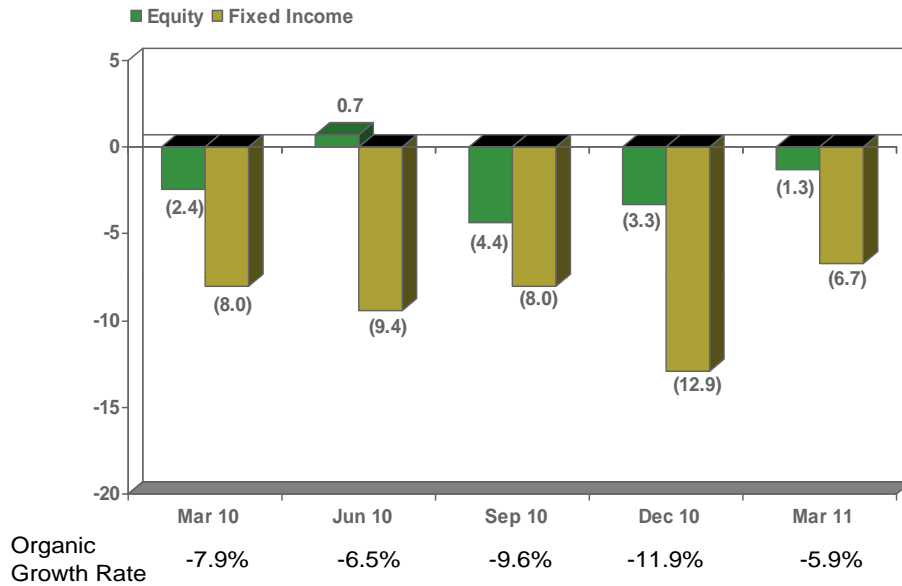


■ Fixed Income ■ Equity
■ Alternative ■ Liquidity

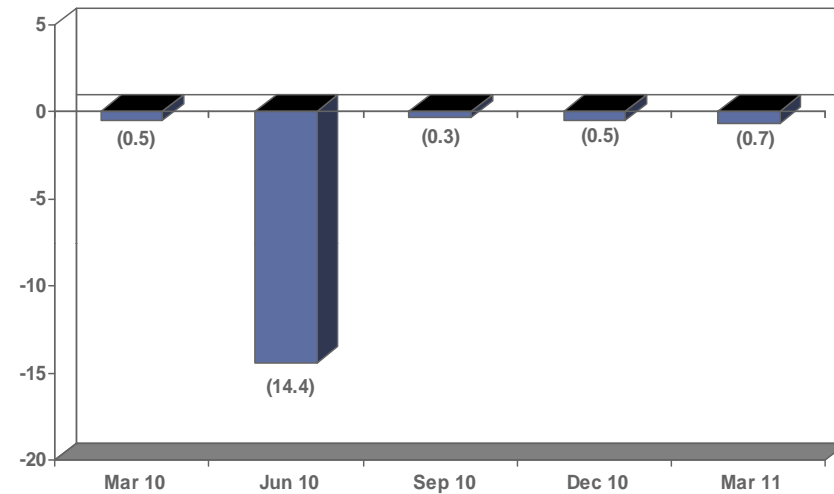
Data as of March 31, 2011

Net Flows

Long Term Net Flows (\$B)



Liquidity Net Flows (\$B)



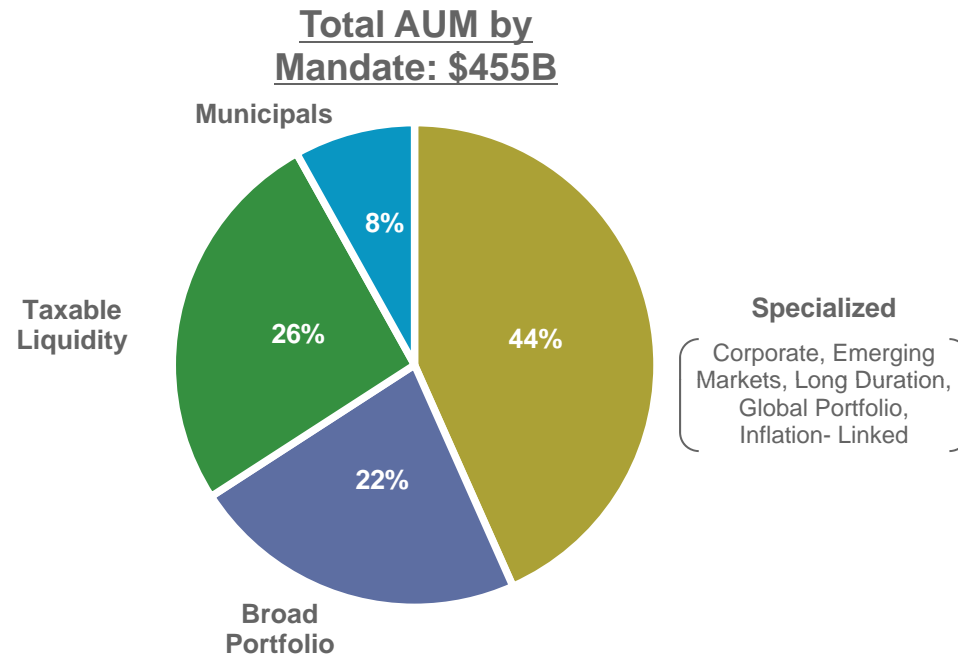
- Mar 11 quarter fixed income outflows lowest since Dec 07. Compared to FY 2010 fixed income outflows have declined 42% or \$27B
- Mar 11 quarter second best quarter in equity flows since Jun 06. Compared to FY 2010 equity outflows have declined 47% or \$7B
- \$16B of liquidity sweep AUM transferred to MSSB in Apr 11

Assets Under Management (\$ billions)

AUM by Affiliate ¹	Mar '11 AUM	Dec '10 AUM	Mar '10 AUM	% Change vs	
				Dec '10	Mar '10
Western Asset	\$ 455.2	\$ 453.6	\$ 478.2	0 %	(5) %
Permal Group	20.8	19.6	17.4	6 %	19 %
Royce & Associates	43.9	39.5	33.9	11 %	29 %
ClearBridge	57.8	55.7	54.4	4 %	6 %
Batterymarch	23.6	23.3	20.9	1 %	13 %
LM Capital Mgmt	15.2	15.8	17.9	(4) %	(15) %
Brandywine	31.8	32.0	30.4	(1) %	5 %

¹ Primary affiliates ordered by contribution to fiscal year 2011 pre-tax earnings

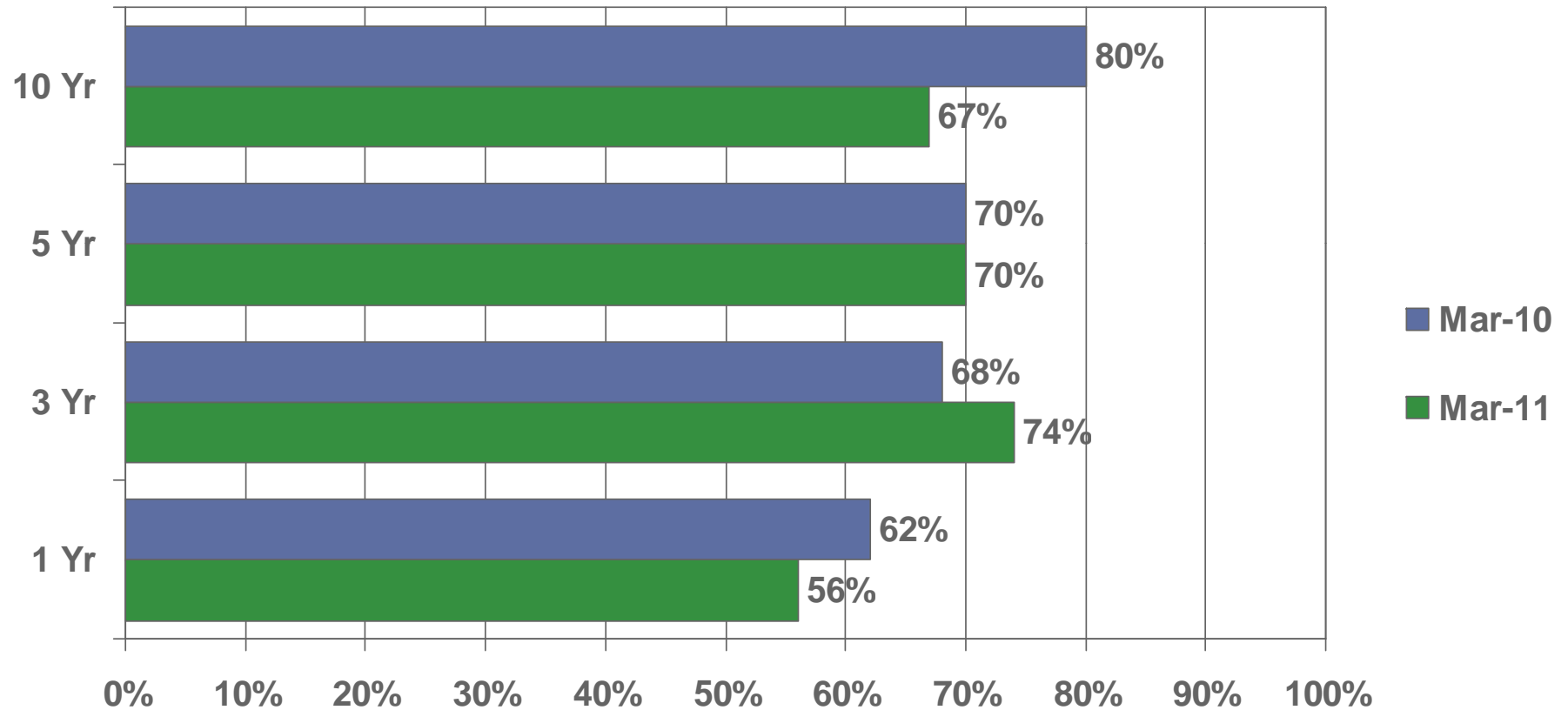
Western Update



<u>Performance</u>	<u>Growth Areas</u>	<u>Headwinds</u>
<ul style="list-style-type: none"> Over 75% of Western marketed composite assets¹ beating benchmark for the 1-, 3-, 5-, and 10- yr periods <p>¹ includes liquidity</p>	<ul style="list-style-type: none"> Emerging local currency Global multi-sector Inflation-linked Global corporate Insurance Advisory Services 	<ul style="list-style-type: none"> Legacy, low yielding redemptions Muni fund redemptions Rebalancing \$16B of liquidity sweep AUM transferred to MSSB in Apr 11. Anticipate additional \$7B transferring over next 15 months

Long-Term Fund Performance

% of Long-Term U.S. Fund Assets beating Lipper Category Average¹



¹ As of March 31, 2011, includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.
Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund.
Individual fund performance will differ.

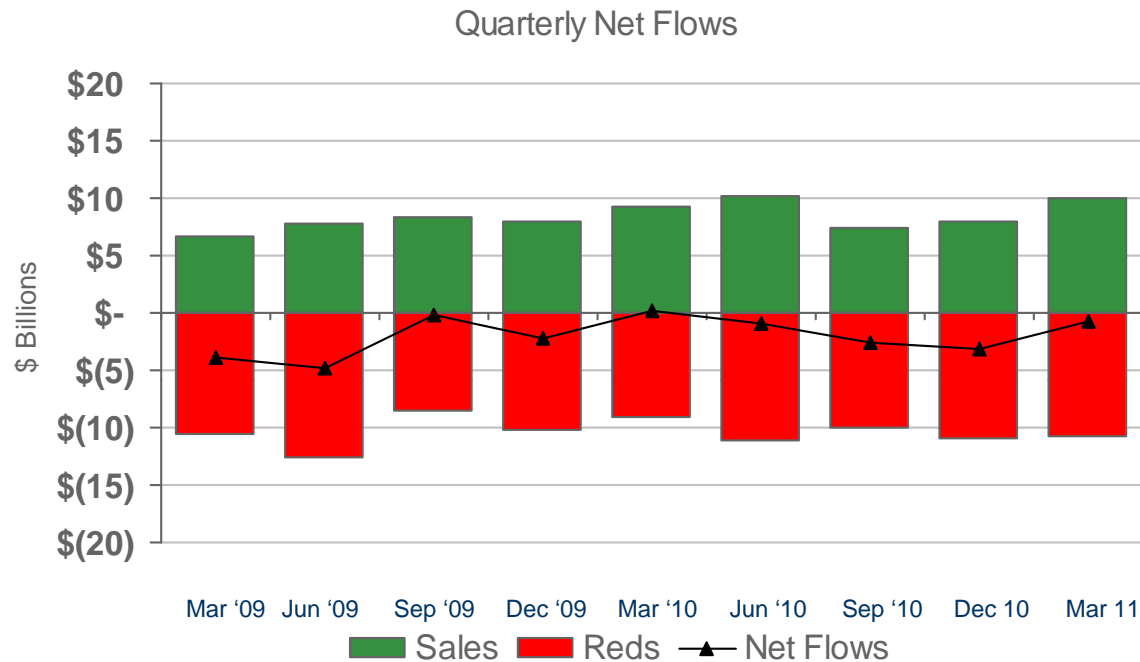
Affiliates Acknowledged for Improved Performance in FY 2011



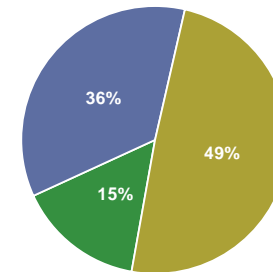
- *Barron's* Annual Fund Family Ranking for 2010 ranked Legg Mason #8 overall; and #2 in Taxable Bonds
- Brandywine Global was named Bond Manager of the Year for 2010 by Money Management Letter for its global fixed income strategies
- Permal received the top award for one of its funds at InvestHedge's annual awards, winning for 10- year performance for the period ended December 31, 2010 for funds with assets of greater than \$1 billion
- Western Asset and Royce & Associates each won three awards in the 2011 Lipper US Fund Awards
- Legg Mason was the #1 issuer of closed-end funds in 2010¹

¹ Source: The Closed-End Fund Association and SEC.gov

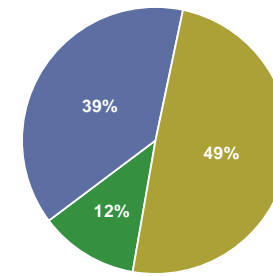
Americas Distribution Long-Term Flow Trends



Gross Sales by Channel
FY 2011



FY 2010



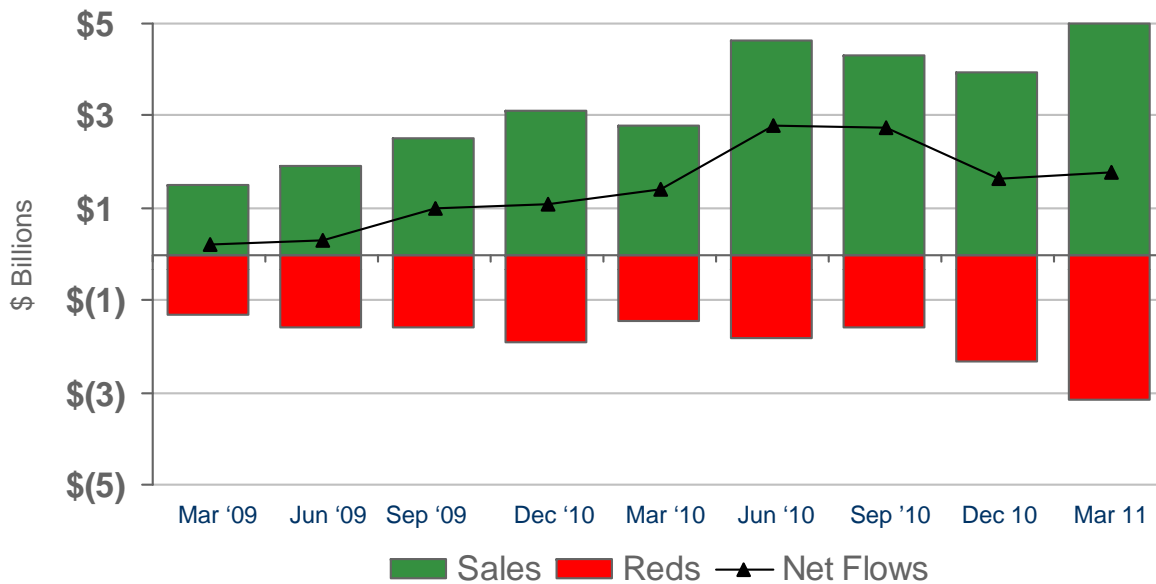
Legend: IAD (Green), NBD (Blue), Individual (Olive)

- Gross sales increased 26% over prior quarter to \$10.0B
- FY 2011 gross sales increased 7% to approximately \$36B compared to FY 2010
- FY 2011 improvement in gross sales offset by muni and sub-advised outflows
- IAD gross sales year over year increased 33%

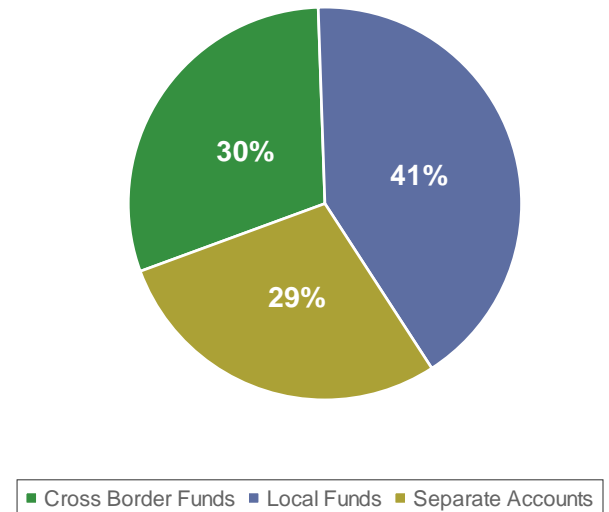
Represents sales, redemptions and net flows by Legg Mason's centralized Americas distribution operations

International Distribution Long-Term Flow Trends

Quarterly Net Flows



AUM by Product



- Compared to prior quarter net flows increased 11% to \$1.8B
- FY 2011 net flows increased 140% to \$8.9B compared to prior year driven by higher flows in the Japan local funds and the cross border funds
- Nine quarters of positive flows

Represents sales, redemptions and net flows by Legg Mason's centralized International distribution operations

Financial Highlights FY 2011

- FY 2011 net income of \$254M or \$1.63 per diluted share, compared to \$204M or \$1.32 in FY 2010
 - Average AUM for FY 2011 was \$669B, down 1% from FY 2010
 - Operating revenues of \$2.8B increased \$149M or 6% driven by a more favorable AUM mix and higher performance fees
 - Operating expenses of \$2.4B increased \$84M or 4% and include \$54M of transition-related costs
 - Operating income of \$387M increased 20% or \$66M; operating margin improved to 13.9%
 - Adjusted income¹, of \$439M or \$2.83 per diluted share, increased from \$381M or \$2.45 per diluted share
 - Operating margin, as adjusted¹, of 23.2%, compared to 20.7% in FY 2010
 - Effective tax rate 33%, down from 36% reflecting the impact of a U.K. tax rate reduction on certain deferred tax liabilities

¹ See Appendix for GAAP reconciliation

Financial Highlights FY 2011

(\$ millions, except per share amounts)	FY 11	FY 10	Variance	
			\$	%
Operating Revenues	\$ 2,784.3	\$ 2,634.9	\$ 149.4	6%
Operating Expenses	2,397.5	2,313.7	83.8	4%
Operating Income	386.8	321.2	65.6	20%
Net Income	253.9	204.4	49.5	24%
Diluted EPS	1.63	1.32	0.31	23%
Adjusted Income¹	439.2	381.3	58.0	15%
Adjusted Income per diluted share	2.83	2.45	0.38	16%
Operating Margin, as adjusted¹	23.2%	20.7%		
Effective Tax rate	32.7%	36.0%		

¹ See Appendix for GAAP reconciliation

Financial Highlights Fourth Quarter FY 2011

- Net Income \$69M, \$0.45 per diluted share
 - AUM of \$678B, up \$6B or 1% from December quarter
 - Operating revenues \$713M, down \$8M or 1% from prior quarter
 - Decrease largely reflects lower level of performance fees, down \$15M or 43%, and impact of fewer days in the quarter
 - Effective advisory fee rate increased to 36 bps from 35 bps
 - Operating expenses of \$614M decreased \$11M or 2%
 - Change largely reflects lower closed-end fund launch costs and reduced transition-related expenses
 - Operating income \$99M, operating margin 13.9%
 - Adjusted income¹ \$118M or \$0.77 per diluted share
 - Operating margin, as adjusted¹, 23.4%
 - Decrease in effective tax rate from 39% to 31% driven by changes in state apportionment factors and impact of consolidated investment vehicles of 4%

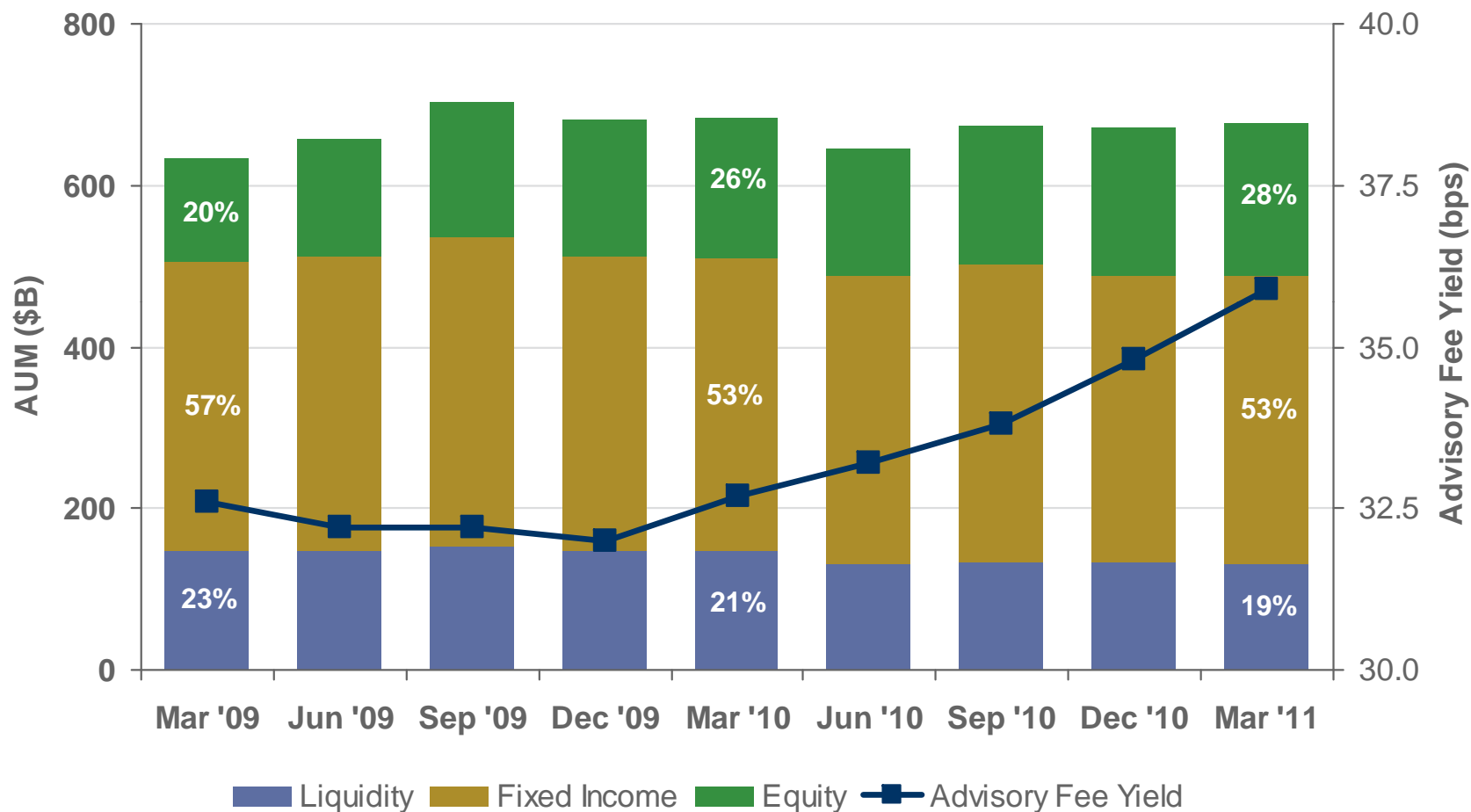
Operating Results Fourth Quarter FY 2011

(\$ millions, except per share amounts)	Mar 11 Qtr	Dec 10 Qtr	Mar 10 Qtr	\$ Change vs.	
				Dec 10	Mar 10
Operating Revenues	\$ 713.4	\$ 721.9	\$ 671.4	\$ (8.5)	\$ 42.0
Operating Expenses	614.3	624.9	565.6	(10.6)	48.7
Operating Income	99.1	97.0	105.8	2.1	(6.7)
Net Income	69.0	61.6	63.6	7.4	5.4
Diluted EPS	0.45	0.41	0.39	0.04	0.06
Adjusted Income¹	117.7	110.3	111.3	7.4	6.4
Adjusted Income per diluted share	0.77	0.73	0.69	0.04	0.08
Operating Margin, as adjusted¹	23.4%	24.3%	23.3%		
Effective Tax Rate	31.0%	38.8%	36.0%		

¹ See Appendix for GAAP reconciliation

Note: Adjusted income was formerly reported as "Cash income, as adjusted"

Advisory Fee Yield / Assets Under Management



Operating Expenses

(\$ millions)	Mar '11	Dec '10	% Chg	Mar '10	% Chg
Compensation and benefits	\$ 311.5	\$ 309.2	1%	\$ 267.3	17%
Distribution and servicing	174.9	187.4	(7%)	167.4	4%
Communications and technology	43.3	39.4	10%	42.2	2%
Occupancy	33.4	37.3	(10%)	25.5	31%
Amortization of intangible assets	5.7	5.8	(2%)	5.7	(1%)
Other	45.5	45.8	(1%)	57.5	(21%)
Total Operating Expenses	<u>\$ 614.3</u>	<u>\$ 624.9</u>	(2%)	<u>\$ 565.6</u>	9%

- Third quarter FY 2011 operating expenses included closed-end fund launch costs of \$10.2M primarily in distribution and servicing
- Increase in communications and technology driven by system conversion costs related to streamlining initiatives
- Third quarter FY 2011 occupancy expenses included \$4.3M transition-related costs

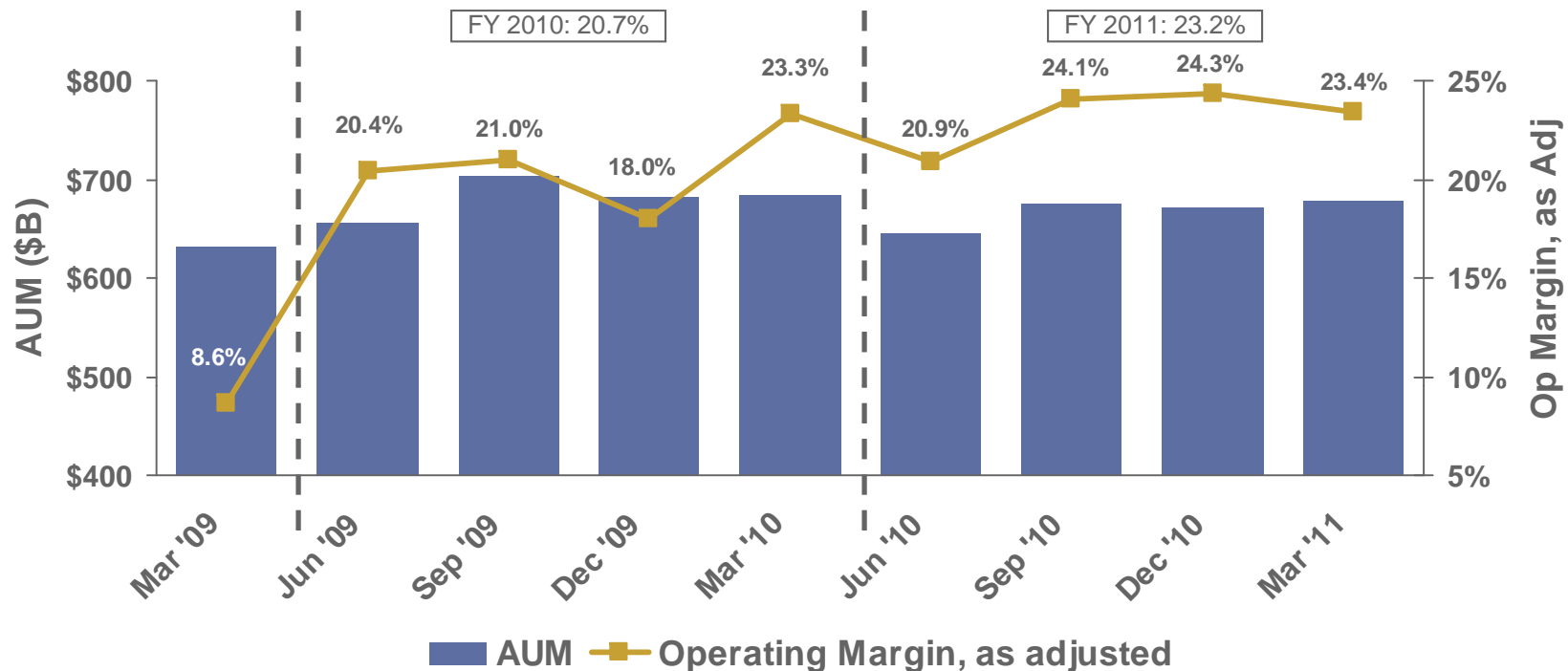
Compensation and Benefits

(\$ millions)	Mar 11	% of Net Rev. ¹	Dec 10	% of Net Rev.	\$ Change
Salary and incentives	\$ 231.8	43%	\$ 232.3	43%	\$ (0.5)
Benefits and payroll taxes	55.9	10%	48.4	9%	7.5
Subtotal Compensation and benefits	287.7	53%	280.7	52%	7.0
Transition-related costs and severance	13.6	3%	20.0	4%	(6.4)
MTM deferred comp. and seed investments	10.2	2%	8.5	2%	1.7
Total Compensation and Benefits	\$ 311.5	58%	\$ 309.2	58%	2.3

- Increase in compensation and benefits due to seasonal payroll taxes, commissions related to increased sales and other benefit costs

¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



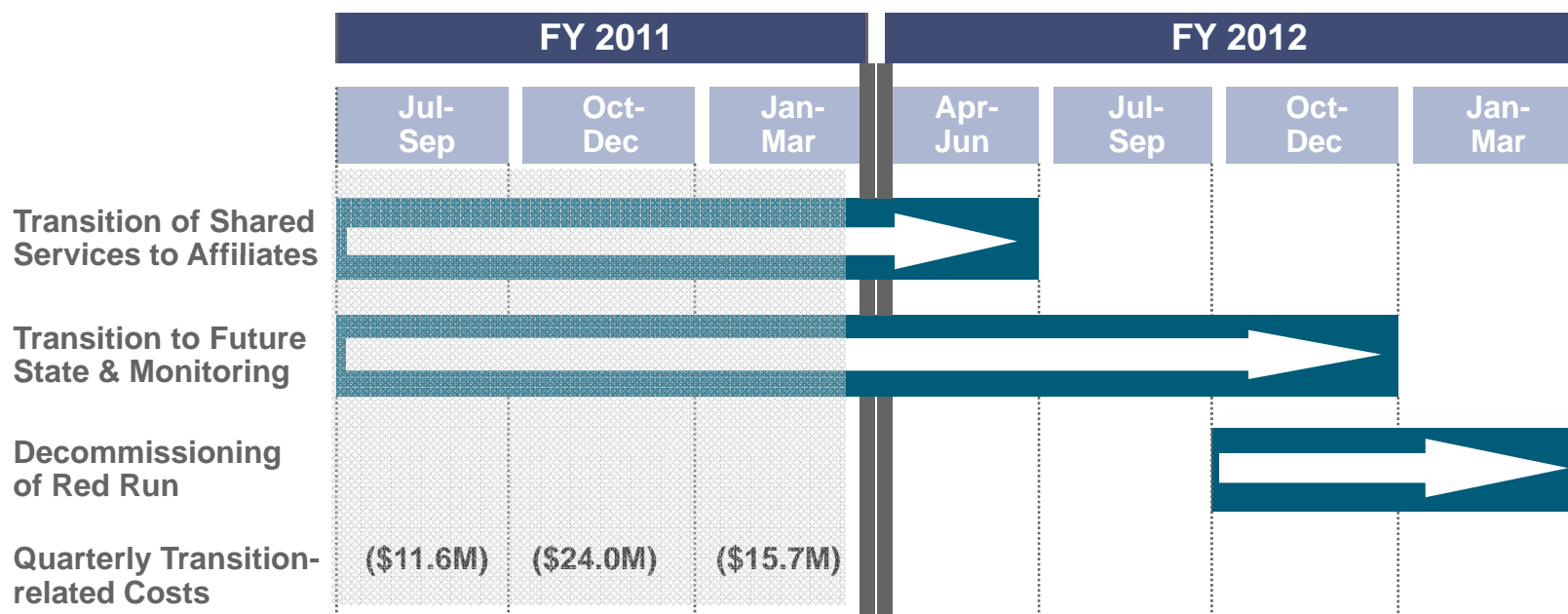
- Compared to FY 2010, operating margin, as adjusted increased to 23.2% from 20.7%
 - Improvement over prior year due to change in AUM mix and reduction in non-compensation expenses
- Decline in March quarter operating margin, as adjusted largely driven by lower performance fees and higher payroll taxes

Update on Streamlining our Business Model

- Transition-related expenses incurred to date of approximately \$54M
- Savings realized in FY 2011 of \$12M, including \$8M in Q4
- Projected costs and savings related to streamlining initiatives remain on target
 - \$130M - \$150M annualized savings to be fully realized by fourth quarter FY 2012
 - Restructuring and related costs estimated between \$125M - \$135M
- First quarter of FY 2012 results projected to include approximately \$15M in transition-related costs

Timing and Financial Impact of Streamlining

Expenses associated with streamlining initiative YTD total \$54.4M



	FY 2011	FY 2012	F4Q12	Annualized Q4 FY 2012
Estimated Total Impact	(\$42M)	\$20M	\$35M	\$140M

Achievement of all projected savings and margin improvements, as well as amount of restructuring and transition related costs, will be affected by many factors, including market conditions and other factors affecting the financial results of Legg Mason and the affiliates and the rate of assets under management growth. Actual results may differ materially from projected amounts

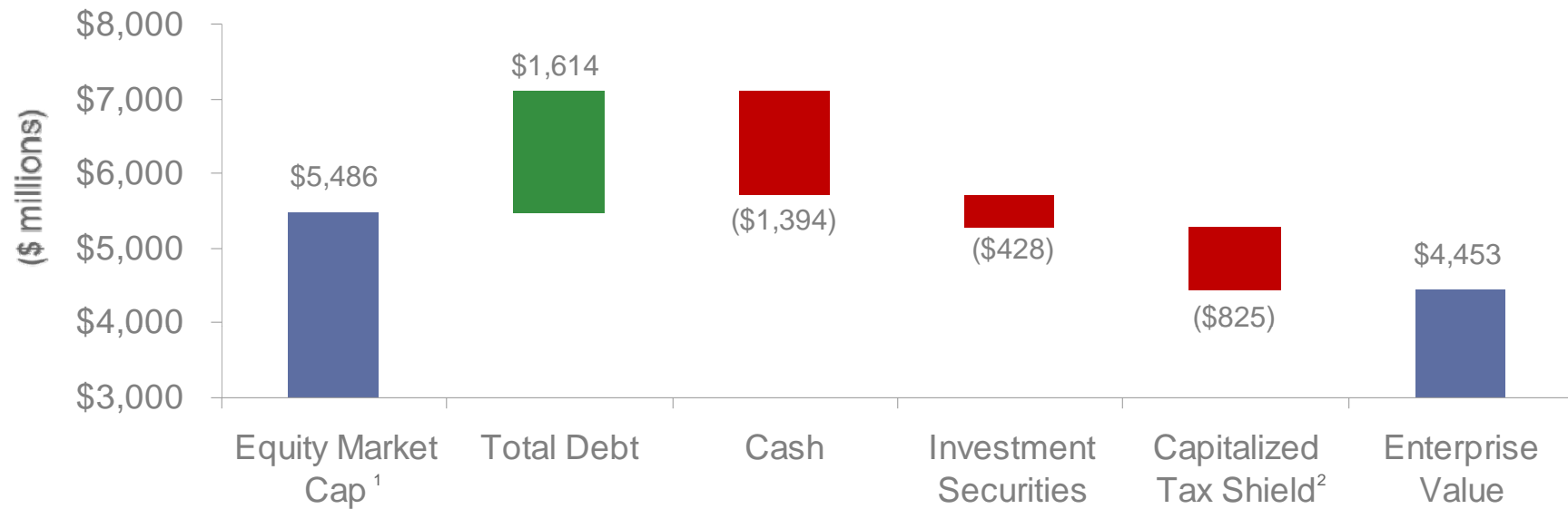
Share Repurchase

- 14.6M shares or 9% of shares outstanding as of March 31, 2010 were repurchased in FY 2011

Shares Repurchased	Transaction
0.5M	Open market repurchase - May 2010
9.2M	Accelerated Share Repurchase – June 2010
1.0M	Additional shares retired when ASR closed - August 2010
0.7M	Open market share repurchase – QE September 2010
1.2M	Open market share repurchase – QE December 2010
2.0M	Open market share repurchase – QE March 2011
14.6M	Total shares repurchased under \$1B Board Authorization announced last year

- \$555M remains of the Board authorized stock repurchase of up to \$1B
- Expect to repurchase additional shares in FY 2012, subject to market and company performance, actual cash flows and other capital needs

Enterprise Value to EBITDA



EBITDA (quarter ended 03/31/11)

Net income	\$69.0
Income tax provision	31.9
Depreciation and amortization	19.1
Intangible amortization	5.7
Net interest expense	19.5
Less net investments gains	(7.9)
EBITDA	\$137.3
Transition expense	15.7
Adjusted EBITDA	\$153.0
Annualized Adjusted EBITDA	\$612.0
Annualized Adjusted EBITDA Multiple³	7.3x

FY 2012 Outlook

- Encouraged by long-term flow improvements given improved performance and current markets
- Global Distribution continues to build momentum, adding to growth outlook
- Continued product innovation and developing closed-end funds across 3 affiliates
- Streamlining on track to deliver annual savings of \$130M - \$150M by fourth quarter FY 2012
- Quarterly earnings progression will not be linear:
 - FQ1 - First period to be impacted by Western reimbursement step down
 - FQ2 - Will realize the largest improvement in streamlining savings
 - FQ3 - Will incur the most streamlining costs
 - FQ4 - All streamlining savings achieved with no additional streamlining costs
- Projected¹ FQ4 EPS will be in the current range of analysts' estimates
- Active capital management including investing in our affiliates for growth
- Strong cash position heading into FY 2012

¹Projections based on following assumptions: investment performance remains strong across key affiliates, modest long-term AUM growth in the year and a moderate market environment, performance fees in range of \$15 - \$25 million, no unanticipated material expenses, and diluted shares outstanding remain relatively unchanged from current quarter. Actual results may differ from assumptions.

Closing Comments

Our Strategy to Deliver Value

**Outstanding
independent
investment
managers**

**A corporate
center that delivers
strategic value**

**A balanced portfolio
across asset
classes, geographies
and channels**

Closing Comments

- A Strong Fiscal Year 2011
 - Improved earnings – net income up 24% and expanded operating margins
 - Initiated streamlining of business model and realigned management team
 - Strong balance sheet with \$1.4B in cash and approximately \$1B available cash
 - Improved performance, flows and asset mix
 - Product innovation with 3 closed-end funds launched – leading the industry
 - Board authorized \$1B for share repurchase
 - Bought back 14.6M or 9% of March 31, 2010 outstanding shares
- Key Themes for FY 2012
 - Support affiliates on client performance and franchise expansion
 - Complete our streamlining on time, on task and on budget
 - Focus on quality business
 - Exploit growth opportunities and accelerate growth through LM distribution
 - Seek targeted bolt-ons and / or acquisitions where appropriate

Appendix

Streamlined Legg Mason Business Model



Appendix - GAAP Reconciliation

Consolidated Statement of Income excluding Investment Vehicles¹

(\$ millions)	Quarter Ended March 31, 2011			Quarter Ended December 31, 2010			Quarter Ended March 31, 2010		
	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles
Operating Revenues:									
Investment advisory fees	\$ 616.1	\$ 1.2	\$ 617.4	\$ 625.1	\$ 1.1	\$ 626.3	\$ 573.9	\$ 0.5	\$ 574.4
Distribution and service fees	95.0	-	95.0	95.5	-	95.5	96.1	-	96.1
Other	2.3	-	2.3	1.3	-	1.3	1.4	-	1.4
Total operating revenues	713.4	1.2	714.7	721.9	1.1	723.1	671.4	0.5	671.9
Operating Expenses:									
Compensation and benefits	311.5	-	311.5	309.2	-	309.2	267.3	-	267.3
Distribution and servicing	174.9	(0.1)	174.8	187.4	-	187.4	167.4	(0.0)	167.4
Other	127.9	(0.1)	127.8	128.3	0.5	128.9	130.9	(0.2)	130.7
Total operating expenses	614.3	(0.1)	614.2	624.9	0.5	625.5	565.6	(0.2)	565.4
Operating Income	99.1	1.4	100.5	97.0	0.6	97.6	105.8	0.8	106.6
Other Non-Operating Income (Expense)									
Net interest income (expense)	(19.5)	-	(19.5)	(20.2)	-	(20.2)	(23.5)	-	(23.5)
Other income (expense)	23.0	(3.0)	19.9	10.3	7.7	18.0	19.4	(2.2)	17.2
Other non-operating income (expense)	3.5	(3.0)	0.5	(9.8)	7.7	(2.2)	(4.1)	(2.2)	(6.3)
Income Before Income Tax Provision	102.6	(1.7)	101.0	87.2	8.3	95.4	101.7	(1.4)	100.3
Income tax provision	31.9	-	31.9	33.8	-	33.8	36.6	-	36.6
Net Income	70.8	(1.7)	69.1	53.4	8.3	61.6	65.1	(1.4)	63.7
Less: Net income (loss) attributable to noncontrolling interests	1.7	(1.7)	0.1	(8.3)	8.3	0.0	1.5	(1.4)	0.0
Net Income Attributable to Legg Mason, Inc.	\$ 69.0	\$ -	\$ 69.0	\$ 61.6	\$ -	\$ 61.6	\$ 63.6	\$ -	\$ 63.6
Effective Income Tax Rate	31.0%			38.8%			36.0%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			31.6%			35.4%			36.5%

¹ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures in earnings release.

Appendix – GAAP Reconciliation Adjusted Income¹

(\$ millions, except per share amounts)	Quarters Ended			Twelve Months Ended	
	Mar 11	Dec 10	Mar 10	Mar 11	Mar 10
Net Income attributable to Legg Mason, Inc.	\$ 69.0	\$ 61.6	\$ 63.6	\$ 253.9	\$ 204.4
Plus (Less):					
Amortization of intangible assets	5.7	5.8	5.7	22.9	22.8
Deferred income taxes on intangible assets:					
Tax amortization benefit	33.6	33.7	33.1	134.6	136.3
UK tax rate adjustment	-	-	-	(8.9)	-
Imputed interest on convertible debt	9.4	9.2	8.9	36.7	34.4
Net money market fund support gains ²	-	-	-	-	(16.6)
Adjusted Income	<u>\$ 117.7</u>	<u>\$ 110.3</u>	<u>\$ 111.3</u>	<u>\$ 439.2</u>	<u>\$ 381.3</u>
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 0.45	\$ 0.41	\$ 0.39	\$ 1.63	\$ 1.32
Plus (Less):					
Amortization of intangible assets	0.04	0.04	0.04	0.15	0.14
Deferred income taxes on intangible assets:					
Tax amortization benefit	0.22	0.22	0.20	0.87	0.88
UK tax rate adjustment	-	-	-	(0.06)	-
Imputed interest on convertible debt	0.06	0.06	0.06	0.24	0.22
Net money market fund support gains ²	-	-	-	-	(0.11)
Adjusted Income per Diluted Share	<u>\$ 0.77</u>	<u>\$ 0.73</u>	<u>\$ 0.69</u>	<u>\$ 2.83</u>	<u>\$ 2.45</u>

¹ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures in earnings release.

² Net of income taxes.

Note: Adjusted income was formerly reported as "Cash income, as adjusted"

Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended									Twelve Months Ended	
	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Mar 10	Mar 11
Operating Revenues, GAAP basis	\$ 617.2	\$ 613.1	\$ 659.9	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 2,634.9	\$ 2,784.3
Plus (Less):											
Operating revenues eliminated upon consolidation of investment vehicles	1.2	0.8	0.6	0.9	0.5	0.8	1.0	1.2	1.2	2.8	4.1
Distribution and servicing expense excluding consolidated investment vehicles	<u>(180.6)</u>	<u>(172.4)</u>	<u>(174.4)</u>	<u>(177.6)</u>	<u>(167.4)</u>	<u>(184.7)</u>	<u>(165.8)</u>	<u>(187.4)</u>	<u>(174.8)</u>	<u>(691.9)</u>	<u>(712.8)</u>
Operating Revenues, as adjusted	<u>\$ 437.8</u>	<u>\$ 441.4</u>	<u>\$ 486.1</u>	<u>\$ 513.7</u>	<u>\$ 504.5</u>	<u>\$ 490.3</u>	<u>\$ 509.9</u>	<u>\$ 535.7</u>	<u>\$ 539.8</u>	<u>\$ 1,945.8</u>	<u>\$ 2,075.7</u>
Operating Income (Loss)	\$ (45.3)	\$ 58.3	\$ 77.9	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 321.2	\$ 386.8
Plus (Less):											
Gains (losses) on deferred compensation and seed investments	(1.9)	31.4	24.1	12.6	11.2	(4.6)	22.1	8.6	10.2	79.3	36.3
Transition-related costs	-	-	-	-	-	3.2	11.6	24.0	15.7	-	54.4
Operating income and expenses of consolidated investment vehicles	1.9	0.3	0.2	0.8	0.8	1.2	1.5	0.6	1.4	2.1	4.7
Impairment charges	<u>82.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating Income, as adjusted	<u>\$ 37.6</u>	<u>\$ 90.0</u>	<u>\$ 102.2</u>	<u>\$ 92.5</u>	<u>\$ 117.8</u>	<u>\$ 102.6</u>	<u>\$ 123.1</u>	<u>\$ 130.2</u>	<u>\$ 126.4</u>	<u>\$ 402.6</u>	<u>\$ 482.2</u>
Operating margin, GAAP basis	-7.3%	9.5%	11.8%	11.5%	15.8%	15.2%	13.0%	13.4%	13.9%	12.2%	13.9%
Operating margin, as adjusted	8.6%	20.4%	21.0%	18.0%	23.3%	20.9%	24.1%	24.3%	23.4%	20.7%	23.2%

¹ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures in earnings release.